

**Tennessee Consolidated Retirement
System (TCRS)
Hybrid Pension Plan
with Cost Controls**

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Hybrid Pension Plan with Cost Controls



Applicable to New Hires Only Upon Adoption

- Defined Benefit
 - 1% formula
 - Eligibility to retire: Rule of 90 or age 65 and vested
 - Employee contribution rate: 5.0%
 - Employer contribution rate: 4.0%
 - Right to freeze, suspend, or modify benefits, employee contributions, plan terms, and design prospectively. Accrued benefits will not be affected.
- Defined Contribution
 - 5% employer contribution made to an employee's account and not subject to any matching employee contribution
 - Auto-enrollment for employees of 2% contribution, with opt-out feature

Hybrid Pension Plan with Cost Controls (cont'd)



Cost Controls

- Maximum Employer Contribution Rate toward both plans: 9% of payroll (i.e., 4% to DB plan and 5% to DC plan)
- Actuarial valuation establishes employer contribution rate for the DB plan
 - If DB employer rate exceeds 4% or if target unfunded liabilities are exceeded, automatically adjust benefits in the following sequence:
 - Utilize Stabilization Reserve Account (if available)
 - Reduce or suspend the maximum 3% COLA
 - Shift DC employer contributions to DB plan
 - Increase employee contributions to DB plan by 1%
 - Reduce future service accrual (below 1%)
 - Freeze plan
 - If cost to state is below target percentage of payroll and unfunded liabilities, then benefits and accrual will be restored to target levels prospectively

Hybrid Pension Plan with Cost Controls (cont'd)



Legacy Plan

- Defined Benefit
 - 1.575% benefit formula
 - Eligibility to retire:
 - Service Retirement
 - Age 60 and vested or 30 years of service
 - Early Retirement
 - Age 55 with 10 years of service

Hybrid Plan

- Defined Benefit
 - 1.0% benefit formula
 - Eligibility to retire:
 - Service retirement
 - Rule of 90 or age 65 with 5 years of service
 - Early retirement
 - Rule of 80 or age 60 with 5 years of service

Hybrid Pension Plan with Cost Controls (cont'd)



Legacy Plan

- Defined Benefit
 - Employee contributions of 5% for teachers and 0% for State employees
 - Employer contribution determined by actuary
Changes cannot be made to benefit structure

Hybrid Plan

- Defined Benefit
 - 5% employee contribution
 - Employer contribution rate: 4%
 - Right to freeze, suspend, or modify benefits, employee contributions, plan terms, and design prospectively

Hybrid Pension Plan with Cost Controls (cont'd)



Legacy Plan

- Defined Contribution
 - Optional contributions to Defined Contribution plan

Hybrid Plan

- Defined Contribution
 - 5% employer contribution made to an employee's account and not subject to any matching employee contribution
 - 2% auto-enrollment for employees with opt-out feature

Selected Summary Income Replacement Ratios



	\$30,000 AFC		\$50,000 AFC		\$70,000 AFC	
	Benefit	% of Final Salary	Benefit	% of Final Salary	Benefit	% of Final Salary
Based on 30 years of Service and Retirement at Age 60 (excludes Social Security because not age eligible yet)						
Current TCRS Plan	14,175	43.8%	23,625	43.8%	33,075	43.8%
1% DB plan, 2% EE to DC, 5% ER to DC	15,038	46.4%	25,064	46.4%	35,090	46.4%
Based on 35 years of Service and Retirement at Age 60 (excludes Social Security because not age eligible yet)						
Current TCRS Plan	16,538	51.0%	27,563	51.0%	38,588	51.0%
1% DB plan, 2% EE to DC, 5% ER to DC	18,380	56.7%	30,634	56.7%	42,888	56.7%
Based on 35 years of Service and Retirement at Age 65 (includes Social Security)						
Current TCRS Plan	26,798	82.7%	42,125	78.0%	56,174	74.3%
1% DB plan, 2% EE to DC, 5% ER to DC	29,639	91.5%	46,860	86.8%	62,784	83.0%
Based on 35 years of Service and Retirement at Age 57 (excludes Social Security because not age eligible yet)						
Current TCRS Plan	16,538	51.0%	27,563	51.0%	38,588	51.0%
1% DB plan, 2% EE to DC, 5% ER to DC	17,924	55.3%	29,875	55.3%	41,825	55.3%

Selected Summary Income Replacement Ratios (cont'd)



Replacement Income Ratios for Hybrid Plan with Cost Controls

Age 65 Retirement with 35 Years of Service

Average Final Compensation	\$30,000	\$50,000	\$70,000
TCRS Hybrid with Cost Controls	\$19,379	\$32,297	\$45,216
Social Security	10,260	14,562	17,568
Total	\$29,639	\$46,859	\$62,784
Replacement Income Ratio	91.5%	86.8%	83.0%

TCRS Hybrid Plan with Cost Controls Assumptions:

- 1% DB plan accrual rate
- 2% Employee contribution to DC plan
- 5% Employer contribution to DC plan
- 6% Investment earnings for DC plan
- Replacement income ratio based on final salary
- Social Security calculated at 75% of normal formula

Next Steps...



A Resolution is Required to Adopt the Hybrid Plan with Cost Controls

TCRS will provide guidance and documentation in assisting a local governmental with this process.